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SUBJECT: AMBASSADOR DISCUSSES QIZ, RAIL EQUIPMENT SALES
WITH MINISTER OF TRADE

Sensitive but unclassified. Not for internet distribution.

1. (SBU) SUMMARY: In an October 30 call on Minister of Trade and Investment Rachid, Ambassador pressed for favorable GOE consideration of US-produced rail equipment and raised the issue of Egypt's continued ban on US poultry part exports. Rachid asked for an expansion of QIZs to Upper Egypt in support of the government's efforts to promote development in that region and said that Egypt was continuing to discuss with Israel the possibility of a reduction of Israeli inputs into QIZ exports from 11.7 to 8 percent. Rachid was noncommittal in response to the Ambassador's request for his help in pushing for a timely GOE response to the USAID sectoral reform benchmark proposal, originally promised for end-October. END SUMMARY.

2. (SBU) In advance of Egyptian President Mubarak's visit to China this week, the Ambassador called on Minister of Trade and Investment Rachid Rachid to urge the GOE to purchase US-manufactured locomotives as part of their planned upgrade of Egypt's rail transportation infrastructure. (Note: After the August 2006 train crash in which 58 Egyptians were killed, the GOE announced plans to spend \$873 million to upgrade the rail sector, and asked for USG help in addressing continuing rail safety concerns. End note.) The Ambassador asked the GOE to look beyond the issue of price and also consider quality and maintenance. He pointed out to Rachid that seventy percent of locomotives currently in use worldwide are US-produced. Rachid responded that Egypt will conduct the locomotive purchase process in an open and transparent way. He noted the Europeans are also in the running, but recognized the merit in the Ambassador's argument in favor of US-manufactured engines.

3. (SBU) QIZs: Rachid outlined ambitious GOE plans for development in Upper Egypt, and said this is now a major focus of Prime Minister Nazif's economic team. The team, he said, feels an obligation to move forward on economic development in Egypt's poorest region. The program involves new factories, as well as transport, health and education infrastructure to lure senior and mid-level managers to the region. Rachid suggested the USG could support this effort by extending QIZ coverage to Upper Egypt. He stressed the positive brand appeal of QIZ, which would draw positive attention to GOE's efforts in the region.

4. (SBU) Under current QIZ rules, Israeli content in Egyptian-produced goods must be 11.7 percent, compared to 8 percent for QIZ's in Jordan. When asked if the GOE is talking to the Israelis about the possibility of reducing the required Israeli content, Rachid said yes. In fact, he said, Israeli PM Olmert had promised this change to Mubarak at their June 2006 summit in Sharm El Sheik. According to

Rachid, however, since then the Israeli trade minister has been trying to renegotiate the deal. Rachid has rebuffed him, he said, noting that he couldn't back off his own president's agreement. The Ambassador asked if Rachid wanted USG support on the issue; Rachid replied that it would be better for Egypt and Israel to work the matter out among themselves. He complained, however, that the Israeli position is "frustrating."

15. (SBU) POULTRY EXPORTS: Ambassador also raised the Egyptian ban on US poultry part exports, noting that its connection with low-pathogenic Avian Flu outbreaks in the US was unscientific. He also emphasized that the ban deprives Egyptians of cheap protein at a time of rising food costs; several factors have contributed to food prices increases of up to 20-30 percent in recent weeks. The poultry parts) legs and thighs -- have the benefit of being cheaper than other imported chicken products. Rachid agreed and said he is working on a solution. He hopes to have something soon.

16. (SBU) USAID BENCHMARKS: The Ambassador also reviewed the status of USAID sectoral cash transfer negotiations, underlining the need for a timely GOE response. Rachid said he is aware of the issue but is not directly involved in the process. Note: The GOE promised a response to the US-proposed aid reform benchmarks by the end of October; to date, we have not received anything from the GOE.
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